COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF BIG RIVERS ELECTRIC CORPORATION, LOUISVILLE GAS AND ELECTRIC COMPANY, WESTERN KENTUCKY ENERGY CORP., WESTERN KENTUCKY LEASING CORP., AND LG&E STATION TWO INC. FOR APPROVAL OF WHOLESALE RATE ADJUSTMENT FOR BIG RIVERS ELECTRIC CORPORATION AND FOR APPROVAL OF TRANSACTION	)	CASE NO. 97-204

O R D E R

IT IS ORDERED that Big Rivers Electric Corporation ("Big Rivers") shall file the original and 12 copies of the following information with the Commission no later than August 26, 1997, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. If the information cannot be provided by the stated date, Big Rivers should submit a motion for an extension of time stating the reason a delay is necessary and a date by which the information will be furnished. Such a motion will be considered by the Commission.

Refer to the testimony of Michael H. Core.

1. Provide a more complete organization chart which reflects all functional areas down to and including the manager level.

2. Provide a complete description of the duties and responsibilities of each group down to and including the manager level.

3. Provide a discussion of the process that was used to determine the appropriate number of employees for each group.

4. Refer to Big Rivers' updated Interim Tariff filed on July 31, 1997. Are similar technical revisions proposed to the Transaction Tariff? Provide a copy of the Transaction Tariff indicating additions, deletions and changes from that filed June 30, 1997.

5. Refer to Revised Exhibit 3(a) page 3, Section A. 3. In what situations will Big Rivers not furnish, maintain and read the meters and measuring equipment?

a. Provide a list of customers to be affected by this change.

b. Explain how this complies with 807 KAR 5:041, Section 9.

6. Refer to Revised Exhibit 3(a), page 24, Section C. 4. d. (5). Should the due date be the 24th of the month?

7. Will the uniform payment due date also be applicable to the cable television attachment rates?

8. How do the maximum demand limits for each of the smelters on Tier 1 and Tier 2 service compare to their maximum demands in each of the past 36 months?

9. Is all energy supplied by Big Rivers to the smelters firm power under the Interim Tariffs?

10. Refer to Revised Exhibit 3(a), pages 28 and 32 and pages 35 and 41. The Tier 1 Energy Charge is defined as the sum of two components at different rates. Explain how the billing form identifies the two components and the corresponding rates.

11. Refer to Revised Exhibit 3(a), pages 26, 27 and 33, and pages 35, 36 and 42. The Tier 3 Energy Rate is set out as $0.01958 per kWh yet the billing form states market price. The Tier 3 Ancillary Service Rate is set out as being included in the Tier # Energy Rate yet the billing form states, "as billed from LPM pursuant to LPM tariff." What is the Tier 3 Energy Rate and what is the Ancillary Service Rate?

12. Explain the purpose and use of the "Adjustment" line under each Tier of the billing form.

13. Is it possible for the smelters to purchase Tier 2 energy without taking the maximum energy available under Tier 1? If yes, describe the circumstances under which this could occur.

14. Reference Revised Exhibit 3(a), pages 28 and 37. How were the maximum demands of 98,000 kw for Henderson Union and 129,500 kw for Green River determined?

15. Provide any agreements or draft agreements indicating the terms and conditions under which the smelters might determine that power is available for Henderson Union or Green River to purchase Tier 1 energy for resale.

16. Who receives the revenues from the resale of Tier 1 energy?

17. Refer to Revised Exhibit 3(a), page 31. Explain what is meant by the reference to, "on behalf of Alcan to resell Tier 1 Energy."

18. Refer to Revised Exhibit 3(a), page 50. Is the Maximum Contract Demand Energy rate the market price or $0.01958? Is the Maximum Contract Demand Ancillary Services charge as billed from LPM tariff or is it included in the contract energy rate?

19. Refer to Revised Exhibit 3(a), pages 46-47. How will the Excess Demand and Excess Energy Rates be shown on the customer's bill?

20. Refer to Exhibit 3(c), page 2. Provide a copy of the contract between LG&E Station Two and LG&E. If the contract is not yet finalized, provide the date by which it is anticipated to be finalized.

21. Does Phase II of the Transaction become effective on the date of closing?

22. Are all requisite approvals expected to be received by August 31, 1998? What tariffs would be in effect if the closing is not complete by August 31, 1998?

23. Refer to Exhibit 7, page 18. Describe the economic development efforts of the LG&E Parties in western Kentucky. What future plans do the LG&E Parties have to further enhance these efforts?

24. Do the LG&E Parties and Big Rivers plan to make use of any type of economic development rate or special contracts in future economic development efforts? Explain.

25. How much enhanced value has LG&E offered over the business arrangement previously proposed by PacifiCorp Kentucky Energy Company ("PacifiCorp")?

26. A review of the rates proposed in this case for the industrial and rural classes indicates that they are identical to those that Big Rivers intended to propose if it had consummated a business arrangement with PacifiCorp. Explain in detail whether any of the enhanced value offered by LG&E has been flowed through to the industrial and rural classes, and if so, provide schedules showing the calculation of the amounts.

27. Reference Exhibit 17, page 8, and Henderson Union's Exhibit 5, page 1, and Exhibit 11, page 2A in Case No. 97-220.[1] Provide a reconciliation of the normalized test year and proposed revenue of Alcan.

28. Reference Exhibit 17, page 8, and Green River's Exhibit 5, page 1 in Case No. 97-219.[2] Provide a reconciliation of the normalized test year revenue and pro forma revenue of NSA.

29. Identify the distribution cooperative customers that could be eligible for service under the Large Industrial Customer Rate.

30. Refer to the Application, page 35. Concerning the determination by the Federal Energy Regulatory Commission ("FERC") that Western Kentucky Energy Corporation ("WKEC") can be designated as an Exempt Wholesale Generator ("EWG"):

a. Provide a listing of the requirements WKEC must meet in order to be designated an EWG. Indicate how WKEC has met each requirement.

---

[1] Case No. 97-220, The Application of Henderson Union Electric Cooperative Corporation for a Decrease in Existing Rates and for Approval of Contracts, filed July 25, 1997.

[2] Case No. 97-219, The Application of Green River Electric Corporation for a Decrease in Existing Rates and for Approval of Contracts, filed July 25, 1997.

b. Provide a listing of any other requirements that must be met in order for Big Rivers' facilities to become "eligible facilities." Indicate how Big Rivers has met each requirement.

31. Refer to the Application, Exhibit 6, Entry 4. Provide the workpapers showing the determination of the gain from the sale of emission allowances. Include all supporting calculations and assumptions.

32. Refer to the Application, Exhibit 6, Entry 9. Provide the workpapers showing the determination of the pro forma amount for outside service employed. Include all supporting calculations, assumptions, and documentation.

33. Refer to the Application, Exhibit 6, Entry 14. Provide the workpapers showing the determination of the pro forma amount for employee pensions and benefits. Include all supporting calculations, assumptions, and documentation.

34. Refer to the Application, Exhibit 6, Entries 16 and 17.

a. Provide the workpapers showing the determination of the amounts written off in 1996. Include all supporting calculations, assumptions, and documentation.

b. Explain why these amounts were written off by Big Rivers in 1996.

35. Refer to the Application, Exhibit 6, Entries 29.

a. Provide the workpapers showing the determination of the three regulatory liabilities credited to extraordinary income in 1996. Include all supporting calculations, assumptions, and documentation.

b. Explain why these amounts were credited to extraordinary income by Big Rivers in 1996.

36. Refer to the Application, Exhibit 6, Entry 8-B. Explain why the working capital balance at closing has to be $10.0 million.

37. Refer to the Application, Exhibit 6, Entry 11-B. The monthly environmental surcharge reports filed by Big Rivers shows that from January 1 through May 31, 1997, Big Rivers purchased 4,840 allowances from coal suppliers. Big Rivers allocated $496,349 to its allowance inventory as the purchase price for these allowances. The weighted average cost of $18.8153 includes the effects of these 1997 purchases.

a. Explain why Big Rivers is transferring the 4,840 allowances to Western Kentucky Leasing Corporation ("Leaseco") at no cost. Include in this explanation the reason(s) why making the transfer at no cost is reasonable.

b. Provide the accounting entries (rather than the pro forma adjustments) Big Rivers will make on its books to reflect the allowance sale and transfer. Assume the transactions occur on August 31, 1997. Include all supporting workpapers, calculations, and assumptions.

c. Given the Commission's previous decisions in Big Rivers' environmental surcharge case concerning the disposition of emission allowance sale proceeds, explain why it is reasonable for Big Rivers to retain approximately $2.5 million in net emission allowance sales proceeds.[3]

38. Refer to the Application, Exhibit 6, Entries 19 and 32. In both of these adjustments, Big Rivers' proposed accounting treatment is stated to be pursuant to

---

[3] The estimated net proceeds reflect the sales price of $3,164,640 minus the book cost of the inventory sold, $626,775 (33,312 allowances X $18.8153). The net of these two amounts is $2,537,865.

Statement of Financial Accounting Standards No. 71 ("SFAS No. 71"), Accounting for the Effects of Certain Types of Regulation. However, in the Application, Exhibit 22, page 13 of 36, Big Rivers' independent auditor discloses that during 1996, Big Rivers determined that it was no longer eligible for the continued application of SFAS No. 71.

a. Explain why entries 19 and 32 appear to be based on the requirements of SFAS No. 71 when Big Rivers has determined that this accounting standard no longer applies to its operations.

b. Provide revised entries 19 and 32 which are not based upon the application of SFAS No. 71. Include all workpapers, calculations, and assumptions.

c. Indicate when, if ever, Big Rivers expects it will be eligible for the application of SFAS No. 71.

d. Did Big Rivers submit a separate notification to the Commission concerning the applicability of SFAS No. 71 when Big Rivers made its determination? If no, why wasn't the Commission informed of this decision?

39. Refer to the Application, Exhibit 7, the Direct Testimony of A. J. Robison, pages 14 and 15 of 26. Explain why it is fair, just, and reasonable to guarantee to the smelters in writing that they will not be charged exit fees or stranded investment costs while no such guarantee is provided to any other customer group of Big Rivers.

40. Refer to the Application, Exhibit 7, Robison Direct Testimony, pages 16 and 17 of 26.

a. Define what is meant by "arbitrage" activities.

b. Explain how the level of arbitrage activities is determined. Include references to the appropriate agreements with the LG&E Parties.

41. Refer to the Application, Exhibit 7, Robison Direct Testimony, Exhibit AJR-2. Provide charts similar to those on pages 1 and 2 diagraming the Phase II structure.

42. Refer to the Application, Exhibit 10, the Direct Testimonies of David Spainhoward and A. J. Robison, pages 9 and 10 of 109. The breakdown of the enhanced value presented by the WKEC proposal included in the testimony does not total $58 million.

a. Provide a detailed schedule which shows the actual distribution of the $58 million in enhancements.

b. Identify any differences between the actual distribution of the enhancements with the distribution initially presented to the bankruptcy court at the time of the auction process. Explain in detail the reasons for any differences.

43. Refer to the Application, Exhibit 10, Spainhoward and Robison Direct Testimonies, pages 98 through 100 of 109. Concerning the operation of Tier 3 from January 1, 2001 through either 2010 or 2011:

a. In designating the wholesale suppliers, will the smelters be the party negotiating all the terms and conditions of the power transaction? If not, indicate what negotiations will be the responsibility of the smelters, of Big Rivers, and the appropriate distribution cooperative.

b. Explain why it is reasonable for Big Rivers or the distribution cooperative to provide these power acquisition services under Tier 3 without receiving additional compensation from the smelters.

44. Refer to the Application, Exhibit 12, the Direct Testimony of Burns E. Mercer, Exhibit BEM-1.

a. Describe the types of customers included on this chart under the category "IND."

b. When reading this chart, is it correct that for the "IND" group, the Big Rivers' members average rates are lower than those charged by Kentucky Utilities Company, Louisville Gas and Electric Company, Nolin Rural Electric Cooperative Corporation, and Warren Rural Electric Cooperative Corporation? If not, what is the proper reading of this data?

45. Refer to the Application, Exhibit 15, the Direct Testimony of Mark A. Hite, page 18 of 32. Provide the status of the request with the Rural Utilities Service ("RUS") concerning the next depreciation study by Big Rivers.

46. Refer to the Application, Exhibit 15, Hite Direct Testimony, page 28 of 32, lines 1 through 8. Explain why reference is made to SFAS No. 71, given the fact that Big Rivers has already determined that it is not eligible to apply this accounting standard.

47. Refer to the Application, Exhibit 16, the Direct Testimony of James H. Smith. Concerning the tax exempt status of an electric cooperative:

a. Is it anticipated that Big Rivers will be able to qualify as an exempt electric cooperative in the future if the proposed reorganization takes effect?

b. If yes, when would Big Rivers again qualify for exempt status?

c. Can Big Rivers qualify for exempt status if only the Phase I transactions take place? In other words, can qualification for exempt status only occur if the Phase II transactions take place?

48. Refer to the Application, Exhibit 20. The Times Interest Earned Ratio ("TIER") resulting from the pro forma adjustments to the test year is 1.07.

a. Does Big Rivers believe this a reasonable TIER?

b. Has Big Rivers provided any testimony or analysis which supports the use of a 1.07 TIER in this case? If yes, provide the citations. If no, explain why the 1.07 TIER is reasonable.

c. Is the 1.07 TIER in conflict with any of the TIER requirements contained in Big Rivers current or new RUS debt agreements? If yes, explain how this conflict is to be resolved.

49. Refer to the Application, Exhibit 22, page 10 of 36. This section of the annual audit report includes Big Rivers' reorganization expenses for the year ended December 31, 1996. Using the same categories shown in the audit report, provide the current cumulative reorganization expenses for Big Rivers as of June 30, 1997.

50. Refer to the Application, Exhibit 22, page 20 of 36. Concerning the allowance sale proceeds refunded to customers, explain why the audit report states that the refund would be completed by December 31, 2002. Include citations to the appropriate sections of the Commission's Order approving Big Rivers' environmental surcharge.

51. Refer to the Application, Exhibit 30, pages 2 through 9 of 10. For each of the budgeted items listed, compare the actual expenditure to the budgeted amount, as of June 30, 1997. Explain the reason(s) for any budget overruns of the larger of 10 percent or $5,000.

52. Refer to the Application, Exhibit 32, pages 7 through 12 of 12. Resubmit these pages, providing the actual and last year amounts for the current month and year-to-date.

53. Refer to the Application, Exhibit B, page 135 of 216.

a. Describe the terms and conditions of Alcan's current arrangement with LG&E Power Marketing relating to a take-or-pay obligation. Provide copies of all documentation concerning this arrangement.

b. When did this arrangement became effective?

c. Describe how Big Rivers notified the Commission of this arrangement between Alcan and LG&E Power Marketing. Indicate when Big Rivers sought Commission approval of this arrangement.

d. On the surface, this arrangement would appear to be a form of retail wheeling.

(1) Does this arrangement constitute retail wheeling?

(2) If yes, explain how this is permissible given the current Kentucky statutes.

(3) If no, explain in detail how this arrangement does not constitute a form of retail wheeling.

54. Refer to the Application, Appendix L.

a. Indicate where in this model Big Rivers has accounted for the sales revenues and purchased power expenses for its contracts with Hoosier Energy REC, Oglethorpe Power Corporation, and Henderson Municipal Power & Light.

b. If these items have not been included, provide a detailed explanation as to why these obligations have been omitted.

55. Refer to the Application, Appendix L, pages 13 and 31 of 67, line 388.

a. Explain why this line item titled "GRCC Settlement" is included in the analysis, especially in light of Big Rivers' proposed adjustment in the Application, Exhibit 6, Entry 30.

b. On pages 17, 35, and 53 of 67, line 503, there is an entry titled "GRCC Settlement/Amortize AMBAC Premium." Are the amounts shown on line 388 related to the GRCC Settlement or the amortization of the AMBAC Premium?

c. Explain why the model does not apparently make a clear distinction between these two transactions.

56. Refer to the Application, Appendix L. It appears that neither arbitrage sales revenues nor payments on the Asset Residual Value Payment Note have been included in the model. If this is correct, explain why these items have been excluded from the analysis. If this assumption is wrong, indicate specifically where in the model these two factors have been incorporated.

57. Refer to the Application, Appendix L and the response to the Commission's July 24, 1997 Order, Item 3, the computer disc containing Appendix L. Beginning in

2011 and continuing through 2022, Big Rivers has assumed it will be making "Other Sales" totaling 15.7 million MWH during the period. These sales are expected to generate $506.8 million from 2011 to 2022. The spreadsheet computer disc shows the level of Other Sales incorporates the maximum annual power purchase amount and the purchases from the Southeastern Power Administration, adjusted for line losses.

a. Provide the references to the appropriate exhibits, testimony, and appendices in this record which discuss these Other Sales. If no references exist, provide a detailed explanation of why Big Rivers has included these sales in its model.

b. Explain why these Other Sales begin in 2011, rather than in 1997. A review of the spreadsheet computer disc reveals that the formula for the sales levels was suppressed from 1997 to 2010.

58. The Direct Testimony of Larry A. Belluzzo, Application Exhibit 13, page 3 of 10, states "Big Rivers had been through a major restructuring once before, in 1987, which turned out to have been based upon over-optimistic assumptions about the power sales market." The Application on page 5 states "The wholesale power market from 1987 through 1995 was softer than anticipated. Big Rivers was unable to achieve the projected sales and revenue targets for off-system sales that the RUS and Big Rivers had anticipated when they entered into the Debt Restructuring Agreement."

a. Describe the analysis that Big Rivers has performed concerning its ability to market the power represented by Other Sales in the future. Include copies of any studies, written analyses, or other documentation that supports this conclusion.

b. The model shows in 2011 that Big Rivers will purchase Base Power at 20.267 mills/kWh and make Other Sales at 29.869 mills/kWh. Explain why Big Rivers believes it will be able to make these sales at these prices when:

(1) There is a general assumption that retail energy markets will be highly competitive; and

(2) Big Rivers is trying to sell the power at a price 47 percent higher than what it paid for it.

c. Given Big Rivers' previous experience with off-system sales, explain why it believes an assumption that it can sell over 1 million MWH a year, every year after 2011, is reasonable.

59. Refer to the Application, Appendix L and the response to the Commission's July 24, 1997 Order, Item 3, the computer disc containing Appendix L. The sales price for Other Sales begins in 2011 at 29.869 mills/kWh and escalates to 35.123 mills/kWh in 2022. The spreadsheet computer disc reveals that this price is sum of the Base Purchase Price, adjusted for line losses, plus the Tier 3 Transmission Demand Rate divided by 73 percent and adjusted for line losses. A 35 percent markup is then applied to the sum.

a. Explain why the transmission component of this rate was not separately disclosed in the model, as had been the case for the other customer groups.

b. Explain the purpose of dividing the transmission rate by 73 percent. Include references to the appropriate exhibits, testimony, and appendices which describe this step.

c. Explain how Big Rivers determined that a 35 percent markup was appropriate for these sales. Include all analysis performed in support of this markup.

60. Refer to the Application, Appendix L and the response to the Commission's July 24, 1997 Order, Item 3, the computer disc containing Appendix L. In the Hite Direct Testimony, Application Exhibit 15, page 30 of 32, he states "The cash flows contained in the financial model are 'tight'." Pages 13, 31, and 49 of Appendix L, Big Rivers' Cash Flow Statement, indicate that Big Rivers' ability to maintain a cumulative positive ending cash balance, and thus make its scheduled debt payments to RUS, relies on its ability to make the Other Sales.

a. Explain why on page 14 of 67, the "97-Preclose" column, line 404 indicates $10.0 million to start ending cash balance, but the spreadsheet computer disc shows that $8.0 million was actually used.

b. Explain why Big Rivers has apparently entered into a reorganization plan that relies on its ability to make off-system sales in addition to its obligations to its members, rather than one where the revenues generated from member sales is sufficient to generate a cash flow to pay the RUS debt.

c. Explain why the Other Sales are beginning when the smelters' contract obligations with Big Rivers are ending. Include references to the appropriate exhibits, testimony, and appendices where this is discussed.

61. Refer to the Application, Appendix L and the response to the Commission's July 24, 1997 Order, Item 3, the computer disc containing Appendix L. A listing of alternative assumptions is listed below. For each assumption, rerun the model so it

reflects only that change. For each result, provide a printout of lines 363 through 411, from 2011 to 2022, which reflects the results of that single change.

a. Assume there are no Other Sales from 2011 to 2022.

b. Assume that the percentage excess sold, line 43, is 25 percent instead of 50.

c. Assume that the markup percentage is 10 percent instead of 35.

62. Refer to the Application, Appendix L. Under the terms of the reorganization agreement, explain what will happen if Big Rivers is unable to maintain a positive, cumulative cash balance and cannot make its scheduled debt service payments to RUS from the sales and transmission revenues it receives. Include references to the appropriate exhibit, testimony, or appendices where this possibility is discussed.

63. Refer to the response to the Commission's June 27, 1997 Order, Item 7. For each account listed below, describe the circumstances which gave rise to the account and explain what impact, if any, the proposed reorganization of Big Rivers will have on the account.

a. Account No. 114000 - Acquisition Adjustment, Jackson Purchase Transaction, page 2 of 13.

b. Account No. 211000 - Consumers Contribution for Debt Service, page 3 of 13.

64. Refer to the response to the Commission's June 27, 1997 Order, Item 10, page 4 of 11. Concerning Account No. 106 - Completed Construction Not Classified:

a. Indicate whether it is normal for Big Rivers to maintain a balance of this magnitude in this account.

b. For each project included in the December 31, 1996 balance with a total cost in excess of $1.0 million, describe the nature of the project. Also, indicate the month and year when the project cost balance was transferred to Account No. 106.

65. Refer to the response to the Commission's June 27, 1997 Order, Item 11. Explain the reason(s) for the significant change in the General Fund cash account balance between August and October of 1996.

66. Refer to the response to the Commission's June 27, 1997 Order, Item 13. For each of the accounts listed below, explain the reason(s) for the change in the account balances between December 31, 1995 and 1996.

a. Account No. 1011 - Productive Capacity - Purchase Power Contract, page 28 of 150.

b. Account No. 10606340 - HMP&L Low NOx Burners, page 31 of 150.

c. Account No. 10813114 - Structures & Improvements - Wilson, page 90 of 150.

d. Account No. 1081312D - Boiler Plant Equipment - Clean Air - Green, page 91 of 150.

e. Account No. 1081312E - Boiler Plant Equipment - Clean Air - Wilson, page 92 of 150.

f. Account No. 10813123 - Boiler Plant Equipment - Green, page 93 of 150.

g. Account No. 10813124 - Boiler Plant Equipment - Wilson, page 93 of 150.

h. Account No. 10813143 - Turbo-Generator Unit - Green, page 95 of 150.

i. Account No. 10813144 - Turbo-Generator Unit - Wilson, page 95 of 150.

j. Account No. 10853530 - Station Equipment, page 103 of 150.

k. Account No. 11111061 - Accumulated Provision for Amortization of Unclassified Plant - Scrubber HMP&L, page 143 of 150.

67. Refer to the response to the Commission's June 27, 1997 Order, Item 15. For each of the accounts listed below, explain the reason(s) for the change in the total balances between December 31, 1995 and 1996.

a. Account No. 447.112 - Sales-GR-Scott Paper, page 2 of 10.

b. Account No. 447.113 - Sales-GR-Willamette, page 2 of 10.

c. Account No. 447.115 - Sales-GR-National Southwire, page 2 of 10.

d. Account No. 447.123 - Sales-HU-Alcan, page 3 of 10.

e. Account No. 447.135 - Sales-HU-Hudson Foods, page 5 of 10.

f. Account No. 447.170 - Sales-Alabama Electric, page 6 of 10.

g. Account No. 447.175 - Sales-Oglethorpe Power, page 6 of 10.

h. Account No. 447.190 - Sales-HEREC, page 6 of 10.

i. Account No. 447.200 - Sales-Enron Power, page 6 of 10.

j. Account No. 447.201 - Sales-Cinergy, page 6 of 10.

k. Account No. 447.203 - Sales-PacifiCorp, page 7 of 10.

l. Account No. 447.205 - Sales-Vitol Gas & Electric, page 7 of 10.

m. Account No. 447.207 - Sales-Calpine Power, page 7 of 10.

n. Account No. 447.210 - Sales-TVA, page 8 of 10.

o. Account No. 447.212 - Sales-Western Power, page 8 of 10.

p. Account No. 447.213 - Sales-Midcon Power, page 8 of 10.

q. Account No. 447.215 - Sales-Electric Clearing, page 8 of 10.

r. Account No. 447.220 - Sales-HMP&L, page 8 of 10.

s. Account No. 447.230 - Sales-SIGECO, page 9 of 10.

t. Account No. 447.235 - Sales-Sonat Power, page 9 of 10.

u. Account No. 447.245 - Sales-Koch Power, page 9 of 10.

v. Account No. 447.260 - Sales-Utilicorp Power, page 9 of 10.

w. Account No. 447.270 - Sales-LG&E Marketing, page 10 of 10.

x. Account No. 447.280 - Sales-Louis Dreyfus, page 10 of 10.

68. Refer to the response to the Commission's June 27, 1997 Order, Item 16(a). For each of the accounts listed below, explain the reason(s) for the change in the total balances between December 31, 1995 and 1996.

a. Account No. 501.110 - Fuel-Coal-Reid, page 4 of 53.

b. Account No. 501.210 - Fuel-Coal-Coleman, page 5 of 53.

c. Account No. 501.310 - Fuel-Coal-Green, page 6 of 53.

d. Account No. 501.410 - Fuel-Coal-Wilson, page 6 of 53.

e. Account No. 502.210 - Steam Expenses-Expense-Coleman, page 8 of 53.

f. Account No. 502.212 - Steam Expenses-Expense-Clean Air-Coleman, page 8 of 53.

g. Account No. 512.210 - Maintenance Boiler Plant-Expense-Coleman, page 18 of 53.

h. Account No. 512.310 - Maintenance Boiler Plant-Expense-Green, page 19 of 53.

i. Account No. 512.410 - Maintenance Boiler Plant-Expense-Wilson, page 20 of 53.

j. Account No. 555.145 - Purchased Power-Enron Power, page 29 of 53.

k. Account No. 555.150 - Purchased Power-HMP&L Station Two, page 31 of 53.

l. Account No. 565.100 - Transmission of Electricity by Others, page 34 of 53.

m. Account No. 923.100 - Outside Services Employed, page 39 of 53.

69. Refer to the response to the Commission's June 27, 1997 Order, Item 23(a), pages 6 and 11 of 19. Big Rivers has identified advertising expenses on these pages related to promotional or institutional advertising. 807 KAR 5:016, Section 4 prohibits the inclusion of expenditures for political, promotional, and institutional

advertising for rate-making purposes. Indicate where in this application Big Rivers proposed to remove these advertising expenses. If no proposal was made, explain why.

70. Refer to the response to the Commission's June 27, 1997 Order, Item 23(b), page 14 of 19. Included in the test year schedule of industry association dues is a payment for Big Rivers' participation in the Midwest Independent System Operator ("ISO"). Concerning the Midwest ISO:

a. As of the date of response to this Order, is Big Rivers planning to join the Midwest ISO? If a decision has not been made, when does Big Rivers expect to finalize this decision?

b. Describe in detail the impact of joining the Midwest ISO on the various agreements contained in the reorganization plan.

c. Assume Big Rivers joins the Midwest ISO. Given the currently discussed pricing approach, explain how Big Rivers would make up the difference between the transmission rates included in the reorganization plan and those envisioned to be charged by the Midwest ISO.

71. Refer to the response to the Commission's June 27, 1997 Order, Item 23(c), page 18 of 19. This response shows test year amounts for donations and political activities. Indicate where in this application Big Rivers has proposed to remove these expenses. If no such proposal has been made, explain why these expenditures should be included for rate-making purposes.

72. Refer to the response to the Commission's June 27, 1997 Order, Item 31, page 3 of 3. In this response Big Rivers has indicated it had 776 employees during the

test year. In the Application, Exhibit 9, the Direct Testimony of Michael H. Core, it is indicated that reorganized Big Rivers will have 112 employees. The difference between these two employment levels is 664. Schedule 5.1.22 of the Participation Agreement lists the employees of Big Rivers who were to be transferred to WKEC. However, the number indicated in Schedule 5.1.22 is at a level different than 664.

a. Does Schedule 5.1.22 of the Participation Agreement still accurately reflect the employees who will be transferring from Big Rivers to WKEC? If not, provide the most current version of the transferred employee schedule.

b. Describe what actions have been taken or are planned to be taken concerning those employees who will not be transferring to WKEC.

73. Refer to the response to the Commission's June 27, 1997 Order, Item 43(c), (d), and (e).

a. Describe the purpose of the March and May 1996 meetings in Washington, D.C.

b. Does Big Rivers believe that the test year frequency of special board meetings reflects a reasonable, on-going level? Explain the response.

c. Does Big Rivers believe that the test year frequency of committee meetings reflects a reasonable, on-going level? Explain the response.

d. Was Big Rivers aware that, for rate-making purposes, the Commission normally does not include per diem fees to industry association meetings when the director's actual expenses are also paid? Provide an explanation supporting the inclusion of these per diem fees, if Big Rivers believes these fees should be included for rate-making purposes.

e. Was Big Rivers aware that the Commission normally does not include expenses for spouses for rate-making purposes?

74. Refer to the response to the Commission's June 27, 1997 Order, Item 53(c). Big Rivers was requested to provide monthly updates of the actual costs incurred for this proceeding. The information is to be provided in the manner outlined in Item 53(a) and is due 10 days after the end of each month, through the month of the public hearing. The update for July has not been received. Provide the information as requested, as frequently as requested.

75. Big Rivers has disclosed that SFAS No. 71 no longer applies to its operations.

a. Identify and describe the appropriate SFAS pronouncement which deals with utilities who are no longer covered by SFAS No. 71.

b. Describe all of the accounting impacts a discontinuance of SFAS No. 71 has on Big Rivers' financial reporting.

c. Has Big Rivers reflected all of the associated adjustments and restatements in this proceeding? If not, identify the remaining adjustments or restatements and explain why these were excluded.

76. Identify and describe any pending or final actions relating to Big Rivers' bankruptcy which have occurred since the filing of this case. Include with the description the potential impact these actions may have on the reorganization plan and in particular

the financial condition of Big Rivers as represented by the financial model included in Appendix L of the Application.

77. Refer to Appendix L of the Application.

a. If Big Rivers cannot achieve the sales revenues represented by the Other Sales, would this result constitute a type of stranded cost for Big Rivers?[4]

b. Describe the actions Big Rivers has undertaken, or plans to undertake, to attempt to mitigate the effects if it cannot achieve the sales revenues represented by the Other Sales in its financial model.

78. On page 17 of Exhibit No. 11 (Testimony of Frank Graves), Mr. Graves states that the "competitive price standard calls for rate levels that approximate those which would prevail in a competitive market."

a. How does this "competitive price standard" relate to Mr. Graves' statement on page 23 of his testimony that the proposed smelter rate is "necessary and sufficient to create competitive overall costs for Alcan and NSA relative to other aluminum smelters, both in the US and worldwide."

b. Will the proposed smelter rates give Alcan and NSA a competitive advantage over competing smelters who are paying in excess of $30/MWh?

c. How was the "competitive price standard" used in determining the proposed rate levels for Big Rivers' non-industrial rural customers?

---

4 The definition of stranded cost used in this question is the same as used by the Federal Energy Regulatory Commission in its Order No. 888.

79. On page 17 of Mr. Graves' testimony he states, "This criterion is particularly relevant now as the electric industry is being restructured—moving from a regulated to a competitive industry."

a. Discuss the status and progress of electric industry restructuring in the United States and in Kentucky.

b. Discuss the likelihood that retail access or competition will occur in Kentucky prior to 2010.

c. Describe the factors, conditions and criteria which determine when or if retail competition will occur in a particular state or utility service area.

d. Discuss how retail access or competition in Kentucky would affect the relationship between Big Rivers and its member distribution cooperatives.

e. Do the contracts now proposed for Big Rivers and its member distribution cooperatives reflect the possibility of retail access by customers of the distribution cooperatives? If yes, describe those provisions and their locations. If no, explain why not.

80. Refer to page 24 of Mr. Graves' testimony.

a. Explain the reasons for the large variations in electricity rates paid by the 30 large smelting facilities in North America (e.g., from \$5/MWh to more than \$30/MWh).

b. Identify the smelters that currently pay in excess of \$30/MWh. State where each of these smelters is located and identify their electricity suppliers.

c. Mr. Graves states that electricity cost represents between 21 percent and 27 percent of the price of aluminum. How does this compare with the products of other industries in the United States?

d. Beginning on line 20, Mr. Graves discusses the competitive nature of the aluminum industry. Is the aluminum industry significantly more competitive than other industries? Explain.

81. Refer to page 25 of Mr. Graves' testimony.

a. Describe and quantify, on a dollar per ton basis, the non-electric variable expenses of Kentucky's smelters.

b. Explain why these costs are "competitive with those of other smelters."

c. Provide a copy of any studies reviewed by Mr. Graves that form the basis for his conclusion on lines 4-6.

d. Described in detail Mr. Graves' analysis of non-electric fixed costs. How do these fixed costs for NSA and Alcan compare to other smelters?

82. Refer to page 27 of Mr. Graves' testimony. What factors contributed to the increase in aluminum prices from $1,019/ton on November 1, 1993 to $2,146/ton on January 25, 1995? Could such a price increase occur again?

83. Refer to page 32 of Mr. Graves' testimony.

a. Explain and demonstrate how the short-term capacity costs of $5.27/MWh for low load factor customers and $2.80/MWh for high load factor customers were determined. Provide all workpapers, calculations, and assumptions.

b. Explain and demonstrate how the transmission charge of $0.98/kw-mo was determined.

c. Explain and demonstrate how the transmission rates of $2.58/MWh and $1.37/MWh for low and high load factor customers were determined.

84. Refer to page 33 of Mr. Graves' testimony. Explain why the market value for energy or system lambdas would be expected to increase at the rate of general inflation.

85. Refer to page 34 of Mr. Graves' testimony. Explain and demonstrate how the capacity charges of $10.98/MWh for low load factor customers and $5.82/MWh for high load factor customers were calculated.

86. Refer to page 46 of Mr. Graves' testimony. Describe how the $12.50/MWh differential between average rural and smelter rates was "negotiated." Were industrial and non-industrial rural customers included in these negotiations?

87. Refer to Exhibit FCG-5 of Mr. Graves' testimony.

a. In Table 5, on page 1 of 6, explain how the items shown on lines 3-38 were classified as either demand (kW) or energy (kWh) related.

b. In Table 6, on page 6 of 6, explain why the months of June, July, August, and February were used in the calculation of the system coincident demand allocator.

c. In Table 6, on page 6 of 6, demonstrate how the kW coincident demand amounts shown in column [A] were calculated.

88. Refer to page 50, lines 11-13, of Mr. Graves' testimony. Explain the statement, "Implicit in the Members' participation in the settlement is their acknowledgement that the proposed rate levels, at large, satisfy their economic needs."

89. Refer to page 55, lines 16-17, of Mr. Graves' testimony.

a. Explain the statement, "Both the demand and energy charge are negotiated rates."

b. Who negotiated these rates on behalf of the industrial and residential rural customers?

90. Refer to page 56 of Mr. Graves' testimony. Explain and demonstrate how the market-priced energy rate of $19.58/MWh was determined.

91. Refer to page 59 of Mr. Graves' testimony. Explain the statement, "The Tier 2 rate is a negotiated rate." Was each year's Tier 2 rate, as shown in Table 5, negotiated?

92. Refer to page 61 of Mr. Graves' testimony. Provide the estimated Tier 3 power purchase quantities for each smelter for the period 1997-2011.

93. Refer to page 61 of Mr. Graves' testimony. Explain the statement, "Importantly, as distinct from retail wheeling, this arrangement is fully consensual at both the retail and wholesale level."

94. On pages 60-61 of his testimony, Mr. Graves implies that Tier 3 purchases are different from retail access, although he describes these purchases as being from "customer-designated third parties." If smelters are able to choose their electricity

suppliers for Tier 3 power purchases, explain how such transactions would not qualify as retail access or wheeling.

95. Refer to page 62, Table 6, of Mr. Graves' testimony. Describe how the proposed Tier 1 and Tier 2 contract quantities were determined.

96. On page 63 of his testimony, Mr. Graves states, "It must be stressed again that the current agreement resulted from negotiation and therefore takes account of the differing interests of the various parties." Identify the "various parties" that participated in these negotiations.

97. On page 72 of his testimony, Mr. Graves states, "Big Rivers' Members' native load or other end users of electric power will not (yet) be able to use this transmission tariff, consistent with the reservation of retail wheeling authority to the Kentucky Public Service Commission." Yet on page 60, Mr. Graves states that, "Until December 31, 2000 the rate for Tier 3 'market-priced' power is equal to $19.58/MWh (including losses) plus applicable transmission charges under Big Rivers' open access tariff." (emphasis added) Reconcile these two statements.

98. Refer to Mr. Graves' Exhibits FCG-7 and FCG-8. In the "Formula" columns, reference is made to several tables labled "WP." Where in the application can these Tables "WP" be found?

99. Refer to Exhibit 24, page 28 of 135. It shows that the Reid Plant will be deactivated in the year 2016. Does LG&E anticipate the output from the Reid unit will be zero in year 2016? If no, explain why the plant deactivation should not reflect the actual date.

100. Indicate when the Coleman Plant, Units 1, 2, and 3 will be deactivated.

101. Exhibit 10, page 68 of 109, shows that LPM shall be obligated to offer Big Rivers a fixed price of 18.917 mills per KWH through December 31, 2000. Mr. Frank Graves testimony on page 58 of 85 states, "That is, if a smelter does not actually use the total amount of Tier 1 megawatt hours contracted for, it is still required to pay Big Rivers $13.50 for each megawatt hour not taken."

a. Explain how the $13.50 was derived.

b. Since Big Rivers will be paying LPM $18.917 per MWH, how will Big Rivers recover the difference?

102. Refer to A.J. Robison's testimony, Exhibit 7, page 9 of 26. He states that the price per MWH will escalate modestly after the year 2000 and will be periodically subject to adjustments based upon changes in national indices. Could the price per MWH increase to a level higher than what is showing in Exhibit 10, page 68 of 109? If yes, explain whether the smelters' contract allows for cost per MWH for Tier 1 and Tier 2 to be adjusted. If no, explain why.

Done at Frankfort, Kentucky, this 12th day of August, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt

For the Commission

ATTEST:

Don Mills

Executive Director